



# FREEMAN REPORT

## Freeman Chair in China Studies

### 費和中國研究講座

December 2003

#### QUOTES OF THE MONTH

"We've finally got the Americans right where we want them." – senior Chinese Communist Party (CCP) Politburo member in response to President George W. Bush's expression of opposition to Taipei's apparent efforts to change the status quo of the Taiwan Strait, **quoted in CNN**, Dec 16, 2003

"More unfortunate still, however, was that the Taiwan statement was never a part of the long-term planning for this summit. Instead, two other issues were expected to concern the leaders: bilateral economic relations and making progress with the North Korean nuclear standoff. However, little apparent progress was made on either." – **Bates Gill**, in "The Wen Jiabao Visit: What Didn't Happen", featured in this month's special essay.

#### TRIVIA QUESTION

**What unprecedented visit by Americans to China preceded Nixon's historic 1972 trip?**

(answer at the end of the newsletter)

#### RECENT PUBLICATIONS

On December 12, **Bates Gill** published an article in the Financial Times, entitled "[Bush was correct but clumsy on Taiwan](#)". He argued that while a strong signal may have been needed for Taiwan, the Bush administration needs better management and coordination of its Taiwan policy to ensure that cross-straits tensions will not get out of hand and affect U.S. interests.

#### FREEMAN CHAIR IN THE NEWS

On December 11, **Bates Gill** was a panelist on [The Diane Rehm Show](#) aired on National Public Radio (NPR). He commented on the state of Sino-U.S. relations in the wake of Chinese

Premier Wen Jiabao's visit to the United States.

On December 4, **Bates Gill** testified before the U.S.-China Economic and Security Review Commission on [China's Growth as a Regional Economic power: Impacts and Implications](#). He identified three key trends which increasingly define China's growing regional influence and noted the principal implications of this development.

#### CONFERENCES AND EVENTS

On December 9, the Freeman Chair co-hosted a dinner in honor of the Premier of the People's Republic of China, **H.E. Mr Wen Jiabao** at the Ritz-Carlton, Washington D.C. His speech (English and Chinese) is available on the [Freeman Chair website](#).

On December 2, the Freeman Chair hosted a panel on [Foreign Direct Investment in China](#) presented by **Ken**

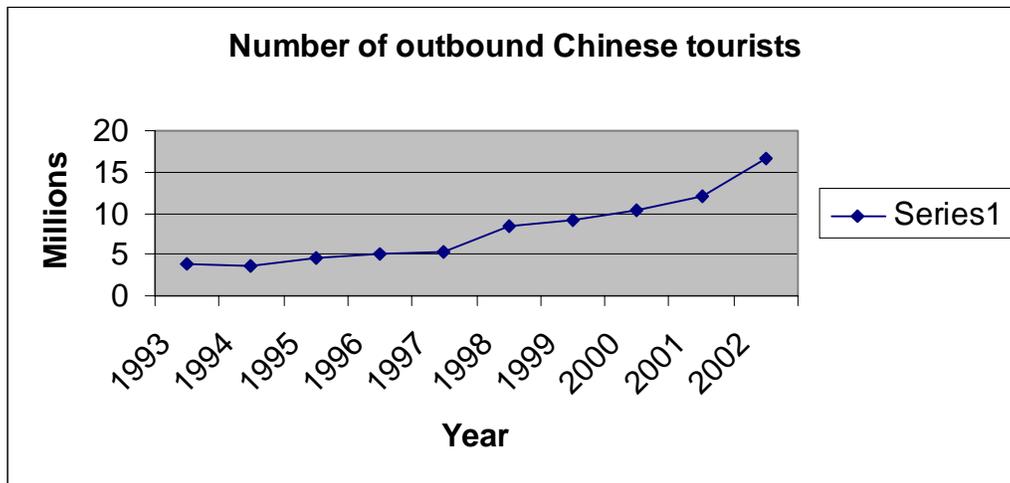
**Davies**, Principal Administrator in the Directorate of Financial, Fiscal and Enterprise Affairs, OECD. He examined the major trends of FDI in China, including the upward trajectory of investment and the nature of FDI. He also introduced the OECD policy recommendations from their report on China's economic sustainability, including liberalizing approval processes, reconsidering foreign ownership restrictions, increasing transparency and strengthening rule of law.

**NEW AT FREEMAN CHAIR**

The Freeman Chair's current project initiative on **Partners or Competitors? : Economics, Trade and Finance in U.S.-China Relations** features the second e-forum essay by Dr. Robert Kapp, President of the U.S.-China Business Council. His essay on "[A Matter of Business](#)" examines the American political imagination with regard to U.S. business with China.

**FREEMAN FACTSHEET**

*China and Tourism*



Source: <http://www.hkchcc.org/hkchcc022603.pdf>  
 Hong Kong China Hawaii Chamber of Commerce

**2002 Ranking of top destinations for Chinese tourists:**

- |              |   |
|--------------|---|
| 1. Hong Kong | 6. Republic of Korea                      |
| 2. Macau     | 7. United States                          |
| 3. Japan     | 8. Singapore                              |
| 4. Russia    | 9. Vietnam                                |
| 5. Thailand  | 10. Democratic People's Republic of Korea |

Source: [http://english.peopledaily.com.cn/200301/14/eng20030114\\_110085.shtml](http://english.peopledaily.com.cn/200301/14/eng20030114_110085.shtml)  
 People Daily, Jan 14, 2003

## **SPECIAL THIS MONTH**

### ***The Wen Jiabao Visit: What Didn't Happen***

by Bates Gill

Freeman Chair in China Studies,  
CSIS

#### **Third party at the table:**

##### **U.S. strategic distraction**

Media coverage of the visit of Chinese Premier Wen Jiabao to Washington, D.C. was dominated by the statement of President Bush concerning U.S. opposition to activities by Taiwan which could be interpreted as “moves toward independence.” But while this statement made some headlines, not much else of substance came out of this visit. Little progress was made on important questions related to trade and North Korea, and other longer-term questions – such as China’s growing influence in Asia and its ongoing domestic transformation – receive scant attention. Behind all of these developments is the strategic distraction of Iraq, Afghanistan and counterterrorism.

##### **President Bush’s “28 words”**

The visit by Wen Jiabao will be remembered for the 28 words President Bush uttered regarding Taiwan. Just what did the President say? During a photo opportunity with Premier Wen, in response to a reporter’s question, President Bush said, “We oppose any unilateral decision by either China or Taiwan to change the status quo. And *the comments and actions made by the leader of Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo, which we oppose.*” (emphasis added)

Post-mortem reports suggest the President and his advisors had become fed up with

electioneering, intransigence and defiance on President Chen’s part, and felt a strong rebuke was needed to “clarify” American views of the situation. More broadly, this statement was justified by the view that the cross-Strait situation needed to be stabilized (the White House insists strong warnings were also directed privately to the Chinese Premier) as the United States must focus its strategic energies on other, more pressing problems in Iraq and elsewhere.

However one looks at it, the statement was a diplomatically awkward public reprimand, speaking volumes about the poor state of political relations between Washington and Taipei, and the sense that Washington needs China as a “partner in diplomacy”, in President Bush’s words, to help deal with regional and global challenges.

##### **What else happened?**

More unfortunate still, however, was that the Taiwan statement was never a part of the long-term planning for this summit. Instead, two other issues were expected to concern the leaders: bilateral economic relations and making progress with the North Korean nuclear standoff. However, little apparent progress was made on either.

As to economic tensions, the Chinese side agreed with the principle that the renminbi (RMB) should become a free floating currency, with a full liberalization of its capital account – just not now or at any time in the foreseeable future. The Bush team turned down its rhetoric for the time being on reevaluation of the RMB, calling instead for undefined “interim steps”. Follow-on, working-level discussions are expected on this issue next month in Beijing, but during the summit no resolution was achieved. And, in spite of some high-profile Chinese

purchases of U.S. manufactures prior to the Premier's visit, and his pledge to reemphasize a "buy American" effort in China, the politically sensitive trade deficit was hardly addressed.

On North Korea, not a lot happened either. Washington rejected Beijing's hopes the United States would move more conciliatorily to meet North Korean demands. Instead, the White House asked Beijing to become more engaged and go back to Pyongyang for more concrete concessions, actions Beijing is reluctant to undertake. In the end, the six-party talks scheduled for mid-December have been postponed with no new date in sight. Meanwhile, North Korea gains more time to expand and refine its nuclear weapons program, while friends and allies in the region wish the United States showed more attention and concern to addressing this problem.

While currency, trade, and Korean peninsula issues saw little progress, some lower-profile agreements were reached. For example, the two sides signed a Memorandum of Understanding on science and technology cooperation, signed a five-year renewal on the bilateral protocol governing official cooperation in health and biomedical sciences, announced a joint health care-related forum in Beijing in the spring 2004, and issued a protocol related to standards and metrology. A cultural agreement was also signed which recommits the two governments to support artistic, educational, and cultural exchanges.

### **What did not happen?**

Looking ahead, and with American strategic attention focused away from China and from East Asia more generally, the Administration will need to devote more energy to closely monitoring and managing

a number of emergent and potentially troublesome developments.

First, more high-level attention and action is needed to address the U.S.-China economic and trade relationship and how it plays politically at home. Without proper care and management on both sides, economic and trade issues – which has traditionally been a "success story" of U.S.-China relations – could easily devolve into a more politically charged and unnecessarily troubled aspect of the relationship. The Bush administration appears to hope that an improving economy in the United States in the 2004 election year will defuse any significant backlash against its laissez-faire approach to China. However, a stronger, more honest, and public case needs to be made by the President for why it is economically and fiscally unwise for the United States to insist on a true reevaluation of the Chinese currency at this time, and why it is highly unlikely a significant change can be made in the near-term in the burgeoning trade deficit with China, especially through the export of manufactured goods, where China has a distinct advantage as a producer.

Second, U.S. policymakers have only recently awakened to the great success China has had over the past three to five years in steadily extending and expanding its economic and diplomatic influence throughout Asia, and especially in Southeast Asia. Beijing has launched a range of new bilateral and multilateral initiatives and become a far more proactive diplomatic and economic player. This is not necessarily a bad thing, especially to the degree it cements more responsible and constructive Chinese actions in the region. However, Washington should spend more time analyzing this situation and gauging its impact on U.S. interests, particularly with regard to China's ties with traditional U.S. friends and allies in

the region such as Australia, Thailand, and South Korea.

Third, little attention in Washington is devoted to assessing China's extraordinary socioeconomic transformation at home, the challenges it may pose, and their implications for U.S. interests. Increased economic success in China will bring greater and greater pressure to bear on Beijing to become more politically open and socially responsive. At the same time, social difficulties are on the rise in China, including unemployment, crime, drug use, HIV/AIDS and other infectious diseases, a weakening social welfare system, and an aging population, to name a few. The United States should increase its attention on these questions in order to avoid the downsides they may pose to China as a stable diplomatic and economic partner, while also finding ways to work with China to address these domestic challenges in ways favorable to U.S. and Chinese interests.

Finally, and perhaps most importantly, the Administration needs to give much more

attention to managing the cross-Strait situation, especially in the coming year. More active attempts to coordinate messages coming from the U.S. – including from the White House, Capitol Hill, the Pentagon, the State Department, the American Institute in Taiwan (AIT), and elsewhere – would be step in the right direction. No easy task to begin with, to be sure. It is made all the more difficult by the fact that communication channels between Taipei and Washington, and especially with Chen Shuibian himself, were poor to begin with, have been damaged more by this most recent mutual aggravation, and are badly in need of improvement. Clearly such channels will be critical over the months running up to the election in Taiwan on March 20, 2004, but will need to be built and sustained well beyond the election, no matter what the outcome.

**Bates Gill is the Freeman Chair in China Studies, CSIS.**

**TRIVIA ANSWER:** The American table-tennis team made an unexpected visit to China one year before Nixon's trip, helping to coin the term "pingpong diplomacy."

Source: CNN

<http://www.cnn.com/interactive/specials/9908/china.century.timeline/china/1972.html>

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*Established at CSIS in 1994 through the generous endowment of Houghton Freeman, the Freeman Chair in China Studies aims to advance the study of China, promote understanding between the United States, China, and the Asia-Pacific region, and provide informed public policy debate, expert briefings, and strategic policy recommendations on Greater China and East Asia to the diplomatic, policy analysis, business, academic, and government communities. The Freeman Chair is currently held by Dr. Bates Gill.*

Freeman Chair in China Studies

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